

28 March 2019

Eyeopener

Draghi supports debt market

Dollar strengthened and yields declined after ECB Governor's comments

Zloty relatively stable despite growing concerns about growth in Europe

British parliament rejected all alternative Brexit options

Today, data about German inflation, US GDP, Czech central bank decision

On Wednesday the debt market was influenced by the declaration of ECB president Mario Draghi that the central bank is ready to mitigate the side effects of negative rates. Investors read this as a sign that ECB worries about the profitability of the banking sector in the face of a slowdown. As a consequence, yields of 10y German bonds reached the lowest level since 2H16 (-0.09%). These changes, together with data on rising mortgage applications in the USA, lead to strengthening of the dollar. Uncertainty about European growth also caused some decline in oil prices and weak performance of stock indices. The information overshadowed the series of Brexit-related votes in the British parliament. Domestic yields decreased in line with core markets and the zloty showed some weakness in the morning, but eventually returned to the level from Tuesday close.

In the evening votes the **British parliament** did not back any of the eight alternative Brexit scenarios. Interestingly, the biggest number of supportive votes gained the proposal of another referendum and the customs union; the latter lacked only 8 votes to be passed. The government will probably make the third attempt to pass their Brexit deal in the coming days, but the success is still not very likely. Earlier PM Theresa May offered to resign if only the parliament backs her deal. It convinced some MPs to change their mind, but it may be not enough as the crucial DUP party is still against. So, we have further uncertainty ahead and the currently binding Brexit date is April 12th.

According to media reports (DGP, Interia), the **Finance Ministry wants to fulfil the stabilising spending rule** criteria when implementing the new fiscal package via deep cuts in spending in other sectors and boosting dividends from state-owned companies. The programme will be also financed by the NBP profit for 2018 (which, however, does not affect the spending rule limit). Such direction seems to be necessary and obvious and definitely better from the market point of view than any attempts to "dismantle" the spending rule. Still, in our view means raised that way may prove insufficient. Moreover, deep cuts will lower the new package's positive impact on economic growth and it is quite possible that the cuts will undermine long term growth outlook, as investment outlays are most likely the first to be trimmed.

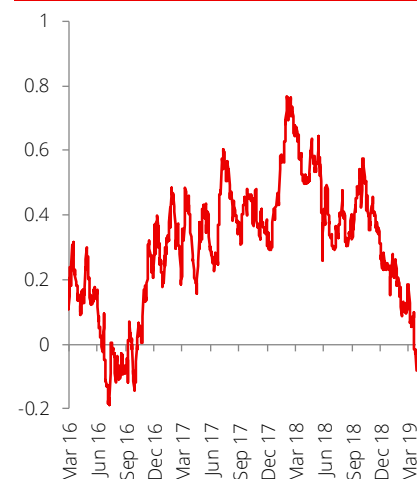
On Wednesday **EURUSD** fell to 1.1250 from 1.1290 in the morning. This move was fuelled by comments of Mario Draghi who suggested that the ECB will resign from charging negative interest on banks' holdings. Additionally, EURUSD was pushed down by better-than-expected US housing market data. Today we see some prospects for a weaker euro in reaction to German inflation, which may surprise to the downside, in our view.

EURPLN rose in the morning to 4.30, but later during the day it returned to the level seen at the Tuesday close (4.2910). The zloty did not respond to the appreciation of the dollar nor the remarks by Mario Draghi about European business climate. Today we might see some weakening of the zloty together with the euro.

In the case of **CEE currencies** EURCZK rose to 25.80 from 25.75 waiting for the Thursdays' CNB conference, when the bank may softening their rhetoric after the Wednesday's ECB governor speech. EURHUF climbed to 320 from 318.90, as a response to the MNB's "dovish" rate hike. Moreover the EURHUF was supported by candidate for the MNB vice-governor, who said that he did not see drastic inflation pressure in Hungarian economy. USDRUB increased to 64.80 from 64.40 responding negatively for the oil prices decreasing and information from CBR that inflation expectations fell again in March.

On Wednesday, on the **domestic debt market** yields were decreasing, following the core markets. As a consequence the 5-10Y yields decreased by 4-5bp, while the front end of the curve stayed stable. The 5-10Y IRS declined a little less than bonds curve, while the 2Y IRS fell by 1 bp. Today the downward pressure is likely to persist affected by core markets behaviour.

Yield of 10Y Bund



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FX market

Today's opening

EURPLN	4.2959	CZKPLN	0.1667
USDPLN	3.8212	HUFPLN*	1.3435
EURUSD	1.1243	RUBPLN	0.0590
CHFPLN	3.8389	NOKPLN	0.4418
GBPPLN	5.0314	DKKPLN	0.5754
USDCNY	6.7273	SEKPLN	0.4111

*for 100HUF

Last session in the FX market 27/03/2019

	min	max	open	close	fixing
EURPLN	4.290	4.300	4.293	4.292	4.2991
USDPLN	3.805	3.822	3.805	3.813	3.8113
EURUSD	1.124	1.129	1.128	1.125	-

Interest rate market

27/03/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.65	-1	21 mar 19	OK0521	1.633
PS0424 (5L)	2.16	-4	21 mar 19	PS0424	2.209
DS1029 (10L)	2.80	-5	21 mar 19	DS1029	2.877

IRS on the interbank market**

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	1.72	2.51	-0.23
2L	1.77	2.32	-0.21
3L	1.80	2.23	-0.16
4L	1.85	2.20	-0.09
5L	1.91	2.21	-0.01
8L	2.10	2.29	0.26
10L	2.21	2.35	0.44

WIBOR rates

Term	%	Change (bps)
O/N	1.52	2
T/N	1.52	1
SW	1.54	0
2W	1.58	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.82	0
1Y	1.87	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.71	0
6x9	1.70	0
9x12	1.71	-1
3x9	1.78	0
6x12	1.76	-1

Measures of fiscal risk

Country	CDS 5Y USD Level	Change (bps)	10Y spread* Level	Change (bps)
Poland	30	0	2.88	-5
France	30	0	0.38	0
Hungary	30	0	2.88	-2
Spain	63	1	1.14	0
Italy	208	1	2.55	2
Portugal	72	0	1.34	1
Ireland	37	1	0.61	0
Germany	12	0	-	-

* 10Y treasury bonds over 10Y Bunds

**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



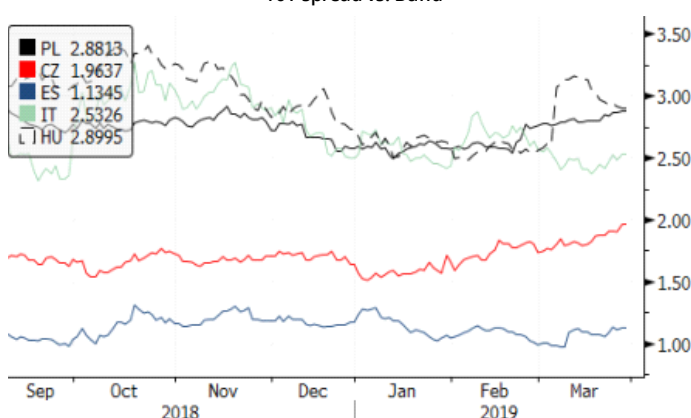
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
THURSDAY (21 March)								
10:00	PL	Construction Output	Feb	% y/y	4.9	8.0	15.1	3.2
10:00	PL	Retail Sales Real	Feb	% y/y	5.6	5.0	5.6	6.1
13:30	US	Initial Jobless Claims	week	k	225	-	221	230
13:30	US	Index Philly Fed	Mar	pts	4.8	-	13.7	-4.1
FRIDAY (22 March)								
09:30	DE	Germany Manufacturing PMI	Mar	pts	48.0	-	44.7	47.6
09:30	DE	Markit Germany Services PMI	Mar	pts	54.8	-	54.9	55.3
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	49.5	-	47.6	49.3
10:00	EZ	Eurozone Services PMI	Mar	pts	52.7	-	52.7	52.8
14:00	PL	Money Supply M3	Feb	% y/y	9.0	-	9.8	8.8
15:00	US	Existing Home Sales	Feb	% m/m	3.2	-	11.8	-1.2
MONDAY (25 March)								
10:00	DE	IFO Business Climate	Mar	pts	98.5	-	99.6	98.5
10:00	PL	Unemployment Rate	Feb	%	6.1	6,1	6.1	6.1
TUESDAY (26 March)								
13:30	US	Housing Starts	Feb	% m/m	-1.6	-	-8,7	11.7
14:00	HU	Central Bank Rate Decision		%	0.9	-	0.9	0.9
15:00	US	Consumer Conference Board	Mar	pts	132.5	-	124.1	131.4
WEDNESDAY (27 March)								
No important releases								
THURSDAY (28 March)								
11:00	EZ	ESI	Mar	pct.	-	-		106.1
13:00	CZ	Central Bank Rate Decision		%	1.88	-		1.75
13:30	US	GDP Annualized	4Q	% Q/Q	2.35	-		2.6
13:30	US	Initial Jobless Claims	week	k	225	-		229
14:00	DE	HICP	Mar	% m/m	0.0	-		0.5
15:00	US	Pending Home Sales	Feb	% m/m	0.5	-		4.6
FRIDAY (29 March)								
	PL	Fitch Rating Review						
8:00	DE	Retail Sales	Feb	% m/m	-1.0	-		2.9
10:00	PL	CPI	Mar	% y/y	-	1.6		1.2
11:00	EZ	Flash HICP	Mar	% y/y	0.0	-		1.5
13:30	US	Personal Spending	Feb	% m/m	0.3	-		0.6
13:30	US	Personal Income	Feb	% m/m	0.3	-		-0.1
13:30	US	PCE Deflator SA	Jan	% m/m	0.02	-		0.1
15:00	US	Michigan index	Mar	pts	97.7	-		97.8
15:00	US	New Home Sales	Feb	% m/m	1.6	-		-6.9

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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